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REPORT OF THE BOARD OF AUDITORS TO THE GENERAL ASSEMBLY ON THE ACCOUNTS OF THE VOLUNTARY FUNDS ADMINISTERED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES FOR THE YEAR ENDED 31 DECEMBER 1992 (*)

*An annex contains follow-up actions by UNHCR to implement the Board's recommendations for 1991 as well as the comments of the Board thereon.

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Introduction

1. In accordance with paragraph 22 of the statute of the Office of the United Nations High Commissioner for Refugees (UNHCR), the Board of Auditors has audited the accounts of the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 1992.

2. The audit was conducted in accordance with article XII of the Financial Regulations of the United Nations and the annex thereto and with the Common Auditing Standards adopted by the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in 1992 had been incurred for the purposes approved by the governing bodies; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations; and whether the financial statements of UNHCR presented fairly the position at 31 December 1992. The audit included a general review of financial systems, a review of internal controls, and such examination of accounting records, and other relevant documents, as we considered necessary to form an opinion on the financial statements.

4. In addition we reviewed a number of aspects of the management of UNHCR and its use of resources. In particular, the Board continued its practice, as endorsed by the General Assembly in resolution A/47/211, of carrying out horizontal studies across all the organizations it audits. The topics selected for review in 1992 were procurement and the management of electronic data processing systems. In addition, the Board carried out an assessment of project management and project implementation by selected implementing partners.

5. The audit was carried out at UNHCR headquarters in Geneva and at the following selected field offices: regional offices in Costa Rica, Mexico and Zaire; branch offices in Thailand, Hanoi, Sudan, Guinea and Cote d'Ivoire; the Working Group in Ho Chi Minh City, Vietnam; and Office of the Charge de Mission (OCM) in Iran, Nicaragua, Cyprus, Honduras and Pakistan.

6. The report includes all the audit findings arising from our examination which the Board considers significant. These were communicated to the High Commissioner and her staff and, where appropriate, their views are reflected in this report. In accordance with normal audit practice, our staff also raised some less significant matters not included in this report. None of these matters affected our audit opinion on the financial statements for 1992.

7. The report is divided into two parts, covering the audit of financial statements and management issues, respectively.

Follow-up of actions taken on previous audit recommendations

8. In paragraph 15 of General Assembly resolution A/47/211, the Board of Auditors was requested to evaluate the extent of compliance with its recommendations. The Board evaluated the actions taken to implement previous audit recommendations made in its report for the year 1991 and noted that the Administration has implemented or initiated actions to implement several of these recommendations (see Annex to the present report). Nevertheless, certain audit recommendations raised in previous years have not yet been fully implemented and these are discussed in the appropriate sections of this report.

Summary of recommendations

9. The Board recommends that the following actions, presented in order of priority, should be taken:

(a) (i) The Administration should review its procedures to improve the effectiveness of its internal controls on cash resources,

(ii) The UNHCR Section of the Internal Audit Division should have as one of its audit priorities next year the strengthening of internal controls on cash resources in field offices (paras. 70, 75, and 79);

(b) The Branch Office in Costa Rica should immediately review its internal control system on cash resources, including a full examination of payments made without appropriate supporting documents and of cheques honored and paid by banks without the required signatures (para. 81);

(c) The formulation of tripartite agreements where appropriate and related sub-agreements should continue to be vigorously pursued by UNHCR. Meanwhile, amendments should be made to existing agreements with implementing partners and executing agencies to include provisions on fund accountability and adequate audit coverage (para. 99 - 100);

(d) The administrative lapses and lack of co-ordination which have caused delays in the implementation of projects should be assessed and remedial actions undertaken (para. 94);

(e) UNHCR should review its system of allocating funds to projects to ensure a more efficient and effective distribution of resources. The Administration should continue with its review and cancellation of long outstanding unliquidated obligations, including those raised against contributions in kind amounting to $33.8 million at 31 December 1992 (para.37);

(f) UNHCR field offices should institute measures that would lead to more economic and efficient utilization of resources by the implementing partners and executing organizations through proper monitoring and more frequent visits to refugee camps and other areas of operations (para. 102);

(g) UNHCR should continue to develop its plan and strategy for the computerization of its financial and personnel management systems in a more comprehensive and integrated form. Close co-ordination with the United Nations Integrated Management Information Systems Committee would be useful in order to benefit from its experiences and to adopt systems already developed that could be made applicable to the UNHCR environment (para.65);

(h) (i) The recently established task force should continue to analyze and process the reports for completed projects,

(ii) quarterly reports on the status of report submission should be generated for general circulation, and

(iii) reporting requirements as set out in the agreements and sub-agreements should be enforced (para. 104);

(i) The circumstances prevailing in the hiring of consultants and temporary assistance should be reviewed to determine whether exceptions from existing or new administrative instructions dealing with UNHCR may be issued (para. 87);

(j) Field offices should be instructed to comply with reporting requirements for goods received through international shipments (para. 54);

(k) Procurement request documents should be completed fully to ensure prompt delivery of goods in accordance with specifications and to meet the needs of refugees (para. 48);

(l) UNHCR should institute measures to strengthen the capacities of field offices to be able to comply with procurement regulations (para. 58);

(m) The Administration should continue with its efforts to locate other competent suppliers for a commonly needed item in all refugee operations (para. 45);

(n) The Board reiterates that the reports on contributions in kind be submitted on a timely basis. In future, accounting for contributions in kind should be done in conformity with the common accounting standards being developed currently for the United Nations system (para. 32);

(o) The maintenance of property records and the applications of established procedures and of relevant forms for the control and disposal of non-expendable property should be enforced to establish proper accountability (paras. 83 and 85); and

(p) Negotiations should be pursued on behalf of UNHCR with the host Government on the status of local staff in Vietnam (para. 91).

Summary of main findings

10. Some contributions in kind were not recorded in the year they were actually received by field offices. Consequently, the relevant accounts in the financial statements do not reflect all contributions in kind actually received as at the end of the year (paras. 28 - 31).

11. Long outstanding obligations and their subsequent cancellations indicate a consistent pattern of over budgeting and the unnecessary earmarking of project funds which are not subsequently required (paras. 33 - 36).

12. The collection rate of pledges, from inter-governmental sources was low because of the failure of UNHCR to comply with the donors' reporting requirements on previous contributions (paras. 38 - 41).

13. UNHCR is over dependent on a single vendor for the supply of a commonly needed item in all refugee operations (paras. 43 - 44).

14. Purchase authorization not fully completed and prolonged delays encountered in the submission of receiving reports for international shipments to field offices indicate serious disregard of prescribed procedures and weakens internal controls in the receipt of goods (paras. 46 - 47, 49 - 53).

15. Shortcomings in procurement procedures exist in several field offices particularly on bidding and the segregation of responsibilities involving procurement decisions, custodianship and record keeping (paras. 55 to 57).

16. The implementation of the Financial Management Information System at headquarters has been delayed. Since 1990 the project's costs have not been identified separately making it difficult to ascertain the cumulative cost of the project to date (paras. 59 - 64).

17. Procedures for the setting of ceilings on the Zero Dollar Imprest Account, the establishment of bank accounts and the handling of petty cash in some field offices were found to be deficient (paras. 66 - 69, 71 - 74).

18. The Board has reported several times its concern about UNHCR's failure to enforce proper segregation of functions at field offices in respect of cash management. Little has been done to implement these recommendations (paras. 76 - 78).

19. There were significant deviations from internal control principles on the management of cash in Costa Rica which could increase risks of misappropriation (para. 80).

20. Property records in many instances were not properly completed and maintained. As a consequence, proper accountability and monitoring of use and maintenance costs of vehicles could not be determined (para. 82).

21. The proper procedures for notifying the Property Survey Board of lost or damaged items and such permission to dispose of property were not consistently applied at several field offices (para. 84).

22. Existing instructions in the hiring of consultants were not complied with. Consultants were hired to perform regular functions leading to a field office granting them annual leave and sick leave benefits which are given only to regular staff members (para. 86).

23. The status of local staff hired in Vietnam has not been clarified and resolved with the host Government (paras. 88 - 90).

24. Delays in the implementation of projects were attributed not to civil disturbances in the project locations but to lapses in administrative arrangements and lack of co-ordination between UNHCR headquarters and field offices, implementing partners and the implementing or executing organizations (paras. 92 - 93).

25. The formulation of tripartite agreements and related sub-agreements has continued to cause problems in project execution and in the monitoring of accountability and audit coverage of project funds (paras. 95 - 98).

26. There were inadequate value-for-money considerations in the utilization of project resources by the field offices and the implementing partners (para. 101).

27. Formal closure of terminated projects has been delayed either because the required final reports have not been submitted by the implementing partners or the reports have been submitted but have not been processed at headquarters. At the field offices, late or non-submission of project monitoring reports was due to the inability and lack of motivation of implementing partners to prepare and submit the required reports (para. 103).

Part I: Financial Statements

Accounts and financial reporting

Accounting for pledges in cash and contributions in kind

28. The financial statements as at 31 December 1992 show outstanding pledges from donors of $333.8 million, consisting of $219.7 million in cash and $114.1 million of contributions in kind. Our examination found that the total for contributions in kind was understated by $1.2 million because

contributions were not recorded at the time they were actually received by field offices as required in Section 3.3 of the UNHCR Financial Rules for voluntary funds. Contributions in kind of $975,000 and $237,389 from the Governments of France and Finland, respectively, were reported as actually received in 1992 but recorded only in 1993. The Administration explained that the problem of timely recording of contributions was caused by pressure of work on their staff and that measures have been taken to avoid a recurrence.

29. Included as an outstanding pledge is a contribution from the Government of Italy of $1.7 million which has been outstanding since 1986 for a project started in 1988 but subsequently suspended in 1990. The Administration explained that this pledge cannot be cancelled because a proportion of the funds was released directly by the donor to the implementing partner but this has not been acknowledged formally to UNHCR. In March 1993, UNHCR requested clarification from the Permanent Mission of Italy.

30. As part of the review of outstanding pledges, the Board noted the particularly low collection rate of inter-governmental pledges. These pledges are mostly (99 per cent) from the European Community (EC). For 1992, collection was $54 million representing 23 per cent of the pledged amount of $230 million. When making contributions, the European Community specifies that on completion of the project, a final narrative and financial report on the actual disbursement of pledged funds should be prepared and submitted to the EEC. It appears that UNHCR have either been late or have failed to submit on time these reports (status of submission is discussed in paragraph 103) to the EC leading to the withholding of further disbursements of pledges.

31. Further, the Administration expressed its concern about the low collection of EC pledges. The Board understands that discussions between the Administration and the European Community are being held to agree on mutually satisfactory modalities in respect to European Community funded projects. The Administration issued guidance to the field offices highlighting the special condition governing the EC contributions and requesting strict compliance with the requirements.

32. The Board has raised concerns about the proper timing of accounting for contributions in kind in previous reports. It therefore reiterates that timely recording of contributions in kind is important. In future, the Board recommends that accounting for contributions in kind should be done in conformity with the common accounting standards being developed currently for the United Nations system.

Liquidation and cancellation of prior years' obligations

33. In last year's audit, the Board raised its concern about the extent of the unliquidated obligations under the special programmes/trust funds

which remained outstanding beyond the normal period allowed for winding up the affairs of completed projects. Administration was then advised to carry out regular review of outstanding unliquidated obligations so that unspent funds could be released, where appropriate, for other projects.

34. The Board noted that of the $217.1 million of outstanding unliquidated obligations raised, based on cash pledges, and recorded at 31 December 1991, $153.2 million was liquidated through cash disbursements and $60.8 million was cancelled. The funds released through the cancellation of obligations were then made available for funding new projects. Some obligations for 1990-1991 projects most of which were implemented in Somalia, Sudan, Malawi, Uganda, Iran and Cote D'Ivoire totalling $3.1 million remain outstanding (see also paragraphs 103 - 104).

35. For the current year 1992, unliquidated obligations amounted to $342 million, which added to unliquidated obligations brought forward from previous years gave a total balance as at 31 December 1992 of $402 million. The Board was not able to verify in 1993 the proportion of these obligations which have been liquidated through expenditure by field offices because this information was not available to headquarters as at the closing date of the audit.

36. With regard to previous years, Table 1 shows obligations that remain outstanding as at year end and subsequent cancellations in the ensuing years. The Board noted that the proportion of obligations that remains outstanding as a percentage of the total raised during the year had been increasing steadily in both relative and absolute terms from 19.3 per cent ($109.7 million) in 1989 to 32.0 per cent (342.8 million) in 1992. Of these outstanding obligations, subsequent cancellations in the ensuing years were approximately one fifth to one quarter. This high level of cancellations indicates a consistent pattern of over budgeting and the unnecessary earmarking of project funds which are not subsequently required.

37. The Board recommended that UNHCR review its system of allocating funds to projects to ensure a more efficient and effective distribution of resources. In addition, the Board suggests that the Administration should continue with its review and cancellation of outstanding unliquidated obligations of prior years. In this respect, it should also review those obligations raised against contributions in kind which amounted to $33.8 million at 31 December 1992.

Liquidity Position

38. The liquidity position of the voluntary funds administered by UNHCR reflects a positive picture. Total current assets of $709.9 million exceeded total liabilities of $410.6 million by $299.3 million as at 31 December 1992. Forty eight per cent of the total current assets is in short-term investments totalling $343.9 million which could be used to

TABLE 1 - ANALYSIS OF LIQUIDATION AND CANCELLATION OF UNLIQUIDATED OBLIGATIONS

All programmes
(In millions of US Dollars)

YEAR OF OBLIGATION	TOTAL OBLIGATIONS FOR THE YEAR	OF WHICH OUTSTANDING FOR THE YEAR	PCT OF OUTSTANDING OVER TOTAL OBLIGATIONS	CANCELLATION						LIQUIDATION				BALANCE 31.12.92	
				IN 1990	IN 1991	IN 1992	TOTAL	PCT OVER OUTSTANDING OBLIGATIONS	PCT OVER TOTAL OBLIGATIONS	IN 1990	IN 1991	IN 1992	TOTAL	STILL OUTSTANDING	PCT OVER OUTSTANDING UNLIQ. OBLIG.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
1989	569.6	109.7	19.3%	19.7	4.4	-	24.1	22.0%	4.2%	72.9	8.7	0.1	81.7	3.9	3.5
1990	543.6	136.0	25.0%	-	25.8	3.6	29.4	21.6%	5.4%	-	96.0	8.8	104.8	1.8	1.3
1991	862.6	243.5	28.2%	-	-	57.5	57.5	23.6%	6.7%	-	-	134.3	134.3	51.7	21.2
1992	1,071.9	342.8	32.0%	-	-	-	-	-	-	-	-	-	-	-	-

settle 84 per cent of total current liabilities. Decisions for investing UNHCR's funds were based on the criteria of equitable distribution of available funds on a competitive basis among eligible banks. In 1992, funds were placed in 35 different banks of international repute in the Euromarket.

39. The value of short-term investments increased by $76.3 million from $267.6 in 1991 to $343.9 in 1992. The invested sum was made up of 4 call accounts amounting to $50.8 million and 52 time deposit accounts totalling $293.0 million. Thus, despite reductions in the average rate of interest paid from 6.2 per cent in 1991 to 4.3 per cent in 1992, the investments yielded interest income of $12.3 million after adjustment for exchange differences and bank charges or an increase of 4 per cent from last year's interest income of $11.8 million.

40. Included in the total current assets are Accounts Receivable amounting to $344.5 million. Of these, $333.0 million or 97 per cent represents governmental and intergovernmental pledged contributions of US$128.5 million and $204.5 million, respectively. These outstanding pledges increased by $134.62 million from $198.38 million in 1991 to $333.0 million in 1992. The increase was mainly due to the decrease in collections from the European Community discussed in paragraphs 28 to 32.

41. Another significant item was the increase in outstanding obligations of $136.4 million due to increased commitments under the special programmes particularly the Humanitarian Assistance in Former Yugoslavia which amounted to $308.89 million, an increase of 99.9 per cent from previous year's balance.

Part II: Management Issues

Procurement

42. Procurement systems and procedures at headquarters and at field offices was one of the areas covered by the Board in its horizontal studies.

Over dependence on a single vendor

43. Temporary shelters using reinforced plastic tarpaulins, are a basic need in refugee operations, and are purchased regularly by UNHCR. In 1992, all purchases of these items totalling $5.3 million were made from a single vendor. Over dependence on a single vendor for the supply of a commonly needed item in refugee operations can lead to supply difficulties and also removes the savings generated by market competition.

44. The Administration agreed that UNHCR should avoid depending on one vendor for the supply of a regular item but stated it could encourage competition where it exists. The plastic tarpaulin supplied by the vendor has been tested in many emergencies and found to have properties which make it versatile for general purposes. In 1992, UNHCR invited samples of plastic sheeting for testing from other sources but finding an acceptable alternative was a slow process and little progress was achieved.

45. The Board recognizes the work done to identify alternative sources of supply but urges the Administration to continue with this effort to locate other competent suppliers.

Preparation of Purchase Authorizations (PA)

46. Procurement procedures require that no purchase for goods and services may be initiated without a Purchase Authorization (PA) that is properly and completely prepared. This was not the case at headquarters. In a sample of 204 PAs, 45 per cent did not contain detailed specifications of the goods required, 27 per cent had no dates of delivery and 73 per cent were captioned with terms such as, "As Soon As Possible, Earliest", "Immediate" and "Urgently". These terms were considered appropriate by the Administration due to the emergency nature of UNHCR operations. The Board believes that, although very often procurement was for relief items immediately required for emergencies, specification of the expected delivery dates would enable the Purchasing and Transport Section to get better value for money through planned deliveries and lower transportation costs. The failure to specify the details of the goods required often resulted in longer processing time defeating the emergency purpose of the procurement.

47. Furthermore, the Board noted that about 86 per cent of PAs sampled which required air shipment were without justifications why air shipment was resorted to in spite of the instructions of the Supply and Transport Section (STS) that where air freight is required, full justification should be provided.

48. The Board recommended that procurement request documents particularly purchase authorizations should be completed fully to ensure prompt delivery of goods in accordance with specifications.

Submission and completion of receiving report

49. UNHCR field offices must submit a Receiving Report to the Supply and Transport Section (STS) at headquarters for each international shipment they receive within one month of its arrival at the named destination. The Receiving Report confirms the fulfillment of the supplier's and carrier's

obligations to UNHCR and, in the event of loss or damage, becomes the basis for insurance claims.

50. A review of the Status of Receiving Reports for deliveries to field offices from 1 January 1990 to 31 December 1992 disclosed that out of 1,504 Receiving Reports due, 893 were submitted late by up to 11 months and 586 remained outstanding for periods as shown below:

Period outstanding	No. of Receiving Reports	Per Cent
less than 6 months	256	44
6 months - 1 year	84	14
1 year - 2 years	211	36
2 years - 3 years	28	5
3 years - 4 years	7	1
Total	586	100

51. Some of the Receiving Reports submitted were incomplete. Often there were no information on the date when goods were received, no indication of whether UNHCR will retain ownership, and no statements whether goods were received in accordance with specifications and quantities required.

52. One of the implications of delayed or non-submission of Receiving Reports is that there is no assurance whether goods were actually shipped and reached the intended beneficiaries. Another implication is that insurance claims can not be immediately filed. For instance, in Guinea, insurance claims expired because of delayed submission of documents to support the claims for some lost and damaged items valued at $76,090. This has deprived UNHCR the opportunity to recover the cost of the goods lost or damaged rendering the insurance coverage useless.

53. The Administration explained that because UNHCR often ship goods to emergency and remote locations or to war situations where normal working condition do not exist, the submission of Receiving Reports has been a continuing problem. Although various measures have been taken to improve the situation, they agreed that much remains to be done if the documentation of receipt of goods is to be strengthened.

54. The Board believes that a reasonable delay in the submission of reports where there are emergency situations is understandable. Nevertheless, prolonged delay taking years or non-submission at all of Receiving Reports cannot be acceptable. This indicates serious disregard of prescribed procedures and weakens internal controls in the receipt of goods. Hence, the Board emphasizes the importance of prompt submission of a properly completed Receiving Report to effectively monitor the proper and timely delivery of goods, to initiate immediate action for insurance claims in case of loss, to effect proper inclusion in the inventory report and to ensure that goods reached the intended beneficiaries. Field offices should be instructed and given set dates to comply with reporting requirements.

Shortcomings in procurement procedures at the field offices

55. Shortcomings were also observed during the field visits. Some procurements were made by field offices without the necessary authorizations from headquarters. There was also a case when, bidding procedures were not followed in the purchase of medicines. The purchase was not awarded to the lowest bidder because the quality of medicines and the reputation of the drug company, instead of price, were used as bases in the award. The aggregate amount of difference between the lowest and the winning bids was $27,493. It is indeed important to consider factors other than price. However, our audit revealed no adequate evidence that these factors of quality and reputation were taken into consideration during the evaluation of the bid proposals.

56. In Cyprus, purchase of various office equipment and a contract for the renovation of office premises amounting to $62,518 were undertaken without bids. The branch office in Cote D'Ivoire continued to do local procurement, notwithstanding a decision by headquarters to be responsible for all procurement for the office. In some of these local procurements, the necessary purchase orders were missing thereby making it difficult to identify who was responsible for the purchase.

57. It was likewise observed that in field offices, it is common practice of having only one member of staff to be responsible for procurement, physical custody, record keeping of property, physical inventory and reconciliation of results thereof because of staff shortage. This practice does not provide sufficient check and balance over procurement decisions and accounting thereof.

58. The Board recommended that UNHCR should institute measures to strengthen the capacities of the field offices to be able to comply with regulations on procurement particularly in bidding and in the segregation of functions involving the procurement process, custodianship and record keeping.

Computer operations and EDP systems

59. Computer operations and EDP systems was the other thrust area covered in the horizontal studies conducted by the Board. In UNHCR, the study was focused on the information technology plan for the Financial Management and Information System (FMIS), a project designed and developed in 1987 and 1988, and being progressively implemented since 1989. The project was aimed at providing timely, accurate and meaningful information to assist managers in the field and at headquarters in their decisions and to serve as an effective tool for project monitoring and implementation.

60. The FMIS/Field system was completed in 1990 as planned and consisted of the Field Office Accounts System (FOAS), the Field Office Budget System

(FOBS) and the Implementing Partner Record (IPR) modules. Administration informed the Board that the FMIS/Field system has provided UNHCR with substantial benefits. The Field Office Accounts System (FOAS) has enabled the Organization to cope with increased budget activities and the Implementing Partner Record (IPR) module has provided field offices with an enhanced ability for project control. Since its implementation, ongoing training and system maintenance has been provided at headquarters and in the field, the cost of which was charged to the sections using the system.

61. On the other hand, implementation of FMIS at headquarters which was due to be completed by the end of 1992 has been delayed. This was because of additional time needed for the processing of the modules for the financial reports at the Finance Section and of the ongoing parallel testing.

62. The Board also noted that since 1990, when the FMIS Working Group was disbanded, the costs for the whole project cannot be identified separately because no cost center and programme code were specifically assigned for FMIS. In 1992 UNHCR tried to identify the total cost of the FMIS project for the Executive Committee. Accordingly, the project cost was $5.045 million from its inception in 1986 up to its initial implementation in 1990. This amount was determined using considerable amount of time by gathering and consolidating all the related costs from the different organizational units. The additional costs incurred from 1990 to the present date could not be identified.

63. The Administration agreed that it would have been advisable to have all expenses related to the FMIS project recorded against a separate project code in line with the concept of cost center reporting. However, they believe that at this stage of implementation, it may no longer be cost effective to gather all the related information on the project.

64. It was also observed that while much has been accomplished with the Field System, other areas of the financial and of the personnel management appeared not to have been given the same priority. As a longer term strategy, the Administration indicated its commitment to utilize the United Nations (UN) Integrated Management Information System (IMIS) for both financial and personnel management. Nevertheless, the financial components of IMIS will not be available to the UN Secretariat until 1994 and will require extensive customization to meet the needs and operational requirements of UNHCR. For this purpose, UNHCR has prepared and submitted a budget with separate programme and location codes for the approval of senior management.

65. The Board recommends that UNHCR should continue to develop its plan and strategy for the computerization of its financial and personnel management system in a more comprehensive and integrated form and in close co-ordination and communication with the UN IMIS Committee in order to benefit from their experiences and to adopt systems already developed that could be made applicable or suited to UNHCR environment. The Administration informed that they are actively following up the development

of IMIS and are fully co-operating with the United Nations in New York on this issue.

Cash management

66. During the Board's audit of field offices, the control on cash resources was identified as a major audit concern. A number of areas require strengthening, in particular, the setting up of ceilings on the Field Offices' Zero Dollar Imprest Account, controls on the establishment of bank accounts, procedures for handling petty cash, and custodianship and record keeping of cash resources in the field offices. In one field office, the Board took note of the very deficient system of internal control on cash resources. These are discussed in the succeeding paragraphs.

Field Offices' Zero Dollar Imprest Account

67. Dollar bank accounts at field offices are maintained in the Zero Dollar Imprest Accounts which are replenished through UNHCR's account with Citibank (Switzerland). Limits are established by headquarters for each single cheque drawn and for monthly drawings made by every field office. Should programme requirements necessitate drawing beyond the monthly established ceiling, prior authorization from headquarters is necessary.

68. There were indications that ceilings set for some field offices were no longer realistic and have not been updated in line with current levels of commitments. Due to this, some field offices either exceeded their ceilings without proper authorization or frequently requested authorization to incur disbursements beyond the ceiling. On the other hand, the authorized ceiling of some field offices can be considered high when compared to their average monthly disbursements. For instance, the monthly ceiling established for Sudan and Honduras of $1.2 million and $800,000, respectively, was excessive as compared to their average monthly disbursements of $320,000 for Sudan and $166,000 for Honduras.

69. The Administration explained that field offices are constantly reminded of the need to obtain prior authorization from headquarters before exceeding the authorized limit of the Zero Dollar Imprest Account. However, difficulties were sometimes encountered because levels of expenditures in field offices may significantly vary from one month to another or in cases of emergency.

70. In view of these, the Board recommended and Administration agreed that monthly ceilings on the Zero Dollar Imprest Accounts should be assessed on a periodic basis so that these are set in more realistic and reasonable limits.

Weakness in the establishment of bank accounts and handling of petty cash

71. In the establishment of bank accounts, some implementing partners did not open separate bank accounts for UNHCR project funds under the expressed request of headquarters, and neither were some bank signatories properly designated. In Mexico, the funds for a project with a total obligated amount of $330,720 were deposited by the implementing partner in a bank account established for another project. In Guinea, an implementing partner maintained only one bank account for all projects they undertake on behalf of UNHCR, EEC and other organizations. Thus, monitoring of fund utilization and verification of bank balances were difficult and ineffective.

72. The bank reconciliation statements for twenty three out of twenty five operated bank accounts at headquarters for the period January to August 1992 were not prepared promptly and regularly. This is because there were certain months when bank statements were received late and some banks do not send month-end statements when there are no transactions during the month. Hence, there is no basis for preparation of the reconciliation statements.

73. The Administration assured the Board that they would further insist with implementing partners that separate bank accounts will be immediately established where several funds were merged in one bank account.

74. On the handling of petty cash, the Board noted that balances are established not on the basis of project requirements but on other circumstances. For instance, in Thailand, large balances were maintained to provide sufficient funds because it takes a long time for the branch office to make replenishments. In Honduras, the balance of their fund was considered minimal for their operations. Hence, cashadvances were granted to various staff members to defray administrative and operational expenses that should have been charged against its petty cash fund. It appeared that almost all of the staff members were petty cash custodians.

75. UNHCR should strengthen controls in the establishment of bank accounts in the field offices in order to prevent any use of these funds for other purposes. In addition, balances of petty cash funds should be assessed and determined based on the requirements of the projects involved and not on administrative delays in the processing of implementation at the field offices.

Functions of custodianship, record keeping and reconciliation

76. A critical internal control principle in safeguarding cash resources is the segregation of responsibilities for physical custody of cash resources, record keeping and the preparation of bank reconciliation statements. Making one individual perform these duties and

responsibilities weakens the controls that could be achieved when functions of record keeping and preparation of reconciliation statements are segregated as a means of ensuring that all receipts actually received are deposited intact, all disbursements are made to the proper payees at the authorized amounts, and all these transactions are properly accounted for and accurately recorded.

77. At headquarters, functions involving collection, deposit of collections to the banks and preparation of monthly bank reconciliation statements were performed by only one member of staff, the Treasury Assistant. Administration explained that this arrangement had been adopted because of budgetary constraints and has in no way affected the accuracy of the reconciliation statements.

78. This practice of having only one staff member responsible for custodianship of funds, keeping of accounting records and preparation of bank reconciliation statements was also common in a number of field offices visited, for example, Costa Rica, Cyprus, Guinea, Pakistan and Sudan. In these offices, the common justification was the lack of appropriate staff complements, due largely to budgetary constraints. However, with the magnitude of the resources involved, there is need to reduce the risk of error, waste or wrongful acts by having those key duties and responsibilities assigned to a number of individuals to ensure that effective checks and balances exist. Administration have agreed to study the issue and implement immediate solutions by redistribution of responsibilities and by providing training to existing staff members.

79. It should be recalled that in the past, several cases of fraud and presumptive fraud were uncovered in field offices where the above-mentioned violations of internal control principles were observed. Yet it appears, that no definite steps and no immediate action had been undertaken to take care of this audit concern. Thus, the Board recommends the following:

(i) the Administration should review its procedures to improve the effectiveness of its internal controls, and

(ii) the UNHCR Section of IAD develops an audit strategy, where in a given year, the Section concentrates its audit in one specific area to ensure a wider coverage of field offices and to achieve tangible audit results. For the ensuing year, the audit should be focused on the strengthening of internal controls on cash resources in field offices.

Inadequate internal controls on cash resources in Costa Rica

80. The Board was concerned about the inadequate system of internal controls on cash resources in San Jose, Costa Rica particularly in regard to the handling of blank cheques, the designation of cheque signatories and the performance of bank reconciliation. These weaknesses, if taken

together indicate significant deviations from internal control principles and exposed these resources to risks of misappropriation.

81. At the time of the audit, the Administration took initial steps to rectify the situation with the assistance of a senior consultant from headquarters. However, additional measures need to be taken to ensure that these resources are better safeguarded and risks are minimized. UNHCR should also ensure that in the agreements with the banks, there should be provisions on their liability for any unauthorized or improper payments attributed to their failure in verifying completeness of information on, and authenticity of cheques as well as their responsibility to submit on a regular and timely manner bank statements and to return cheques paid by them for that period. Further, it is suggested that there should be full examination of those cheques issued without supporting documents and paid by the bank without the required joint signatures. The Board will monitor the outcome of follow-up action taken.

Expendable and non-expendable property

Maintenance of property records

82. The Board found that in many cases at headquarters and in the field, property records were not maintained adequately. For example:

(a) At headquarters and in Thailand, non expendable property and special items issued to staff members were not properly acknowledged in the required form. As a result, accountability of staff members cannot be established;

(b) Items transferred to the field offices were still included in the inventory list of the headquarters due to occasional delays in the update of the computerized inventory system because priority was given in the inputing of new acquisitions and of approved disposal;

(c) No logbooks and monthly control sheets to record maintenance cost and to control use of vehicles for official and personal purposes were maintained in Hanoi, Vietnam and Costa Rica; and

(d) In Pakistan, non-expendable property items in stock were without inventory tags and some have incomplete reference information making identification of items and reconciliation of results of physical inventory difficult to attain.

83. The Board recommended that monitoring of property records and the relevant forms should be well maintained to establish accountability for these assets. In addition, UNHCR should ensure adequate monitoring of the use of vehicles for personal purposes in field offices and should enforce

reimbursement of costs related to the use of vehicles through salary deductions.

Disposal of property

84. Procedures in the disposal of property, particularly in the notification of lost or damaged items to the Property Survey Board (PSB) and in the request for their authority in the disposal of property, were not consistently applied in field offices. For example:

(a) Donation without approval of PSB

The Office of the Chief of Mission in Iran handed over 20 Nissan patrol vans with a total cost of $240,000 purchased on 20 April 1991 to the Ministry of Interior of Iran without authorization from the PSB. The vehicles were transferred on 22 April 1992, one year from the date these were purchased because of difficulties encountered in the registration of these vehicles.

(b) Delayed reporting to the Property Survey Board (PSB)

At headquarters, there were long delays, up to three years in one case, in submitting accident reports to the PSB. Similar lenghty delays were also noted in Sudan and Zaire.

85. The Board reiterates previous recommendations that procedures in the disposal of property should be keenly observed and transfers of property made to various organizations without PSB approval should be fully explained and documented.

Consultants, experts and temporary assistance

Deficiencies in the hiring of consultants

86. In the hiring of consultants, several departures from existing administrative instructions were noted:

(a) Most consultants hired were not taken from the roster

In a review of the recruitment of 50 consultants at headquarters, forty-eight were not on the roster of consultants maintained by the Programme and Technical Support Section (PTSS). This practice defeats the purpose of maintaining a roster of consultants for their selection from among candidates highly qualified in the specific field required and from as wide a representative number of countries as possible. The Administration noted that the scope of the PTSS Roster was limited to

specific technical skills. The Board was also informed that a more comprehensive roster is being developed to include applicants with the special technical skills/profiles needed in UNHCR operations and that all consultants had been positively screened by OHRM/PTSS and/or the Bureau/Division concerned prior to hiring.

(b) Post facto approval of contracts

There was delay in the approval of contracts of consultants hired at headquarters. In 94 contracts involving the 50 consultants, 66 per cent were approved and signed by both parties only after commencement of work. The delay was attributed to late receipt of requests from offices needing consultancy services by the Recruitment, Career Development and Placement Section (RCDPS) as well as to the time needed by the Programme Co-ordination and Budget Section (PCBS) to do the certification of availability of funds and the assignment of allotment account numbers.

(c) Continuous extension of services of consultants

The services of 17 out of these 50 consultants were extended by up to 28 months beyond the nine months limit. Five consultants were first hired in 1989 and their contracts had been regularly extended up to the time of the audit in early 1993. All the extensions were requested from and subsequently exceptionally authorized by the Director, Human Resources Management at headquarters in view of the exigencies of specific refugee operations.

(d) No performance evaluation of consultants

Performance evaluation of 47 out of the 50 consultants cited above were not submitted in a timely manner by the requesting offices. The Administration agreed to design a shortened version of the performance evaluation form that can be easily completed and earlier submitted.

(e) Consultants hired to perform regular functions

During the year, 410 consultants were engaged by the Organization and 166 or 40 per cent of them were required to perform regular functions of staff, 154 of these were for field offices. The Administration explained that all staff hired under Special Service Agreements are not consultants per se and that ST/AI/296, which requires employment of consultants only when the special skills or knowledge needed cannot be competently and professionally delivered by regular staff, is not responsive to the emergency and special nature of UNHCR operations. As a consequence of this practice, a field office in Bangkok decided to grant these consultants benefits of annual leave credits of 2.5 days for each month starting from the third month of the contract and sick leave of 2 days per month of service although they are not entitled under existing administrative instructions.

87. UNHCR should re-evaluate the circumstances prevailing in the hiring of consultants and temporary assistance. It should be determined whether these practices are resorted to because of the distinct nature of UNHCR operations or only as a remedial measure for staff shortage caused by the slow recruitment process as a means to circumvent regulations. Should the former be the cause of these practices, then exceptions under specified conditions should be provided in the existing administrative instruction or a new instruction dealing specifically with UNHCR should be issued.

Status of local staff in Vietnam

88. Field visits to Hanoi and Ho Chi Minh City revealed a long standing practice of UN offices in the hiring of employees of the host Government as local staff for temporary assistance. These local staff are government employees from the Service Staff Bureau of the Ministry of Foreign Affairs who execute contracts with the Service Bureau and agree with its salary rates ranging from $200 to $500 each month. Payments of their salaries are remitted by UNHCR to the Service Bureau which in turn directly pays the staff members. Their salaries were charged to temporary assistance but their annual clothing allowance of $500 and medical allowance of $50 were charged as freight and miscellaneous services and miscellaneous supplies, respectively.

89. It is the opinion of the Board, that this practice is not proper because the arrangements by which they were hired and by which their salaries and allowances were paid were not in conformity with relevant UN administrative instructions.

90. The Board was informed that the host Government agreed to provide UNHCR with local staff but not for UNHCR to directly hire them. Other UN organizations in Vietnam adopt the same practice in the recruitment and remuneration of their local staff. The United Nations Development Programme, on behalf of other UN organizations, has been negotiating with the authorities of the host Government for the normalization of contractual status but unfortunately nothing has been achieved. Some of these employees had served UNHCR in these arrangements for up to 15 years already.

91. The Board recommended and Administration concurred that negotiations should be pursued on behalf of UNHCR with the host Government to properly ascertain the status of the staff members and to come up with arrangements for their remunerations that is both acceptable to them. Meanwhile, the accounts used in recording their salaries and benefits should be reclassified.

Programme management

92. In 1992, UNHCR spent $1,003 billion on programmes/operations representing 92.27 per cent of $1,081 billion received in voluntary contributions. Critical to these operations is timely delivery of supplies, relief items, basic needs and other assistance to refugees.

Implementation of projects

93. During its visits to field offices, the Board noted delays in project implementation not attributable to civil strife or disturbance in the project locations but to lapses in administrative arrangements between UNHCR headquarters and field offices, implementing partners and the implementing or executing organizations.

(a) Under capacity of field offices

In Nicaragua, it was noted that of the 128 quick impact projects (QIP) purportedly to provide rapid response with quick impact on some 500,000 Nicaraguan returnee-beneficiaries, only eight projects were implemented on schedule, 117 projects were delayed up to seven months, and the remaining three were yet to be implemented because the sub-agreements were being prepared. Moreover, the status of implementation of the ongoing 56 micro-projects aggregating $1.8 million ranged between 10% to 50% as at December 1992. The delay was due to enormous workloads, security issues, problems on transportation, procurement, climate, and personnel complement. It appears that the number of projects established was more than what the branch office could effectively implement given its limited resources.

(b) Unresolved disagreements on fund allocations among implementing partners

In Cyprus, two beneficiary committees failed to submit project proposals to UNHCR because of disagreement on how UNHCR funds can be more equitably allocated between them. Consequently, issuance of Letters of Instructions and amendments thereto hampered the implementation of 1992 projects and possibly those in future years. In Iran, funds of $2.4 million for three projects were transferred to an implementing agency as early as July 1992 but at the end of 1992 implementation has not started.

(c) Problems on importation procedures

In Guinea, the distribution of emergency aid consisting of mats, soap, and blankets with a total value of $0.7 million donated by the European Community (EC) was delayed for six months because of long custom procedures at the port of Conakry, thereby defeating the emergency purpose of the donation.

(d) Late receipt of Letters of Instructions (LOIs)

Delays in project implementation were generally attributed to the late receipt of LOIs from headquarters which in turn caused delays in the preparation of implementing instruments at the field office levels. This was observed in the field visits to Iran, Pakistan and Sudan. An examination done at headquarters of selected projects valued at $15,399,128 implemented in Kenya revealed that ten sub-agreements were drawn four to nine months after the planned commencement date of the project due to late receipt of LOIs.

94. The Board is concerned with these delays in the implementation of projects due to administrative lapses and inadequate co-ordination and supervision on the part of all the units of organizations involved in refugee operations. It was informed that whenever sub-agreements could not be drawn in time, a letter of mutual intent is concluded temporarily. However, these factors are within the administrative control and responsibilities of the parties concerned and can therefore be acted upon. It is recommended that specific steps of co-ordination and communication should be undertaken to ensure the timely issuance of Letters of Instructions, preparation of project proposals, and establishment of projects with due consideration to the capabilities of the field office, the implementing partners and the executing organizations.

Deficiencies of bipartite agreements

95. Execution of UNHCR projects in the field is covered either by bipartite agreements entered into between UNHCR and the implementing partners or by tripartite agreements between UNHCR, the host Government as the implementing partner and a non-governmental organization executing the project.

96. Field visits indicated several problems when the implementation of UNHCR projects is governed by bipartite agreements. First, executing organizations who are recipients of UNHCR project funds feel that they are accountable to the host Government/implementing partner and not to UNHCR. Thus, when there are cases of misappropriation of funds by staff members of the executing organizations, UNHCR has no legal capacity to deal directly with these organizations and could not exercise supervision in the implementation and monitoring of projects.

97. There was a case in Nicaragua, where funds amounting to $10,145 were misappropriated by a former co-ordinator of an executing agency, who was found guilty by the courts in Managua for fraudulently encashing checks and raising fictitious expenditures. Management at the field office believes that the matter is internal between the Government as the implementing partner and the executing agency. Hence, UNHCR can not recover any amount and the project for which these funds were intended had not been implemented.

98. Second, the funds transferred by UNHCR's implementing partners to the executing organizations for projects covered by bipartite agreements are not audited because of the absence of adequate audit provision in these agreements. In a bipartite agreement, audit coverage is limited to the ones conducted by internal and external auditors of the UN at the implementing partners level only which usually is a government department or agency. At the level of the executing organizations, no audit can be done by external and internal auditors of the United Nations because there are no governing agreements nor by the audit organization of the host Government because they have no mandate, these being funds entrusted to them as implementing partners of UNHCR. And in cases when there are audits conducted in these executing organizations, UNHCR is not furnished with copies of any reports because of the absence of a tripartite agreement.

99. This audit concern on bipartite agreements was raised by the Board last year in the case of Thailand when it recommended the execution of tripartite sub-agreements with the government department of the host country and the implementing partners. No significant improvement in the execution of tripartite agreements or sub-agreements was attained in Thailand and the Board further observed that this was true in all the field offices visited this year. Thus, the Board reiterates its recommendation that UNHCR should continue and vigorously pursue the execution of tripartite agreements where appropriate and related sub-agreements.

100. In the meanwhile that tripartite agreements are being worked out, the Board recommends that amendments should be made to existing agreements to include provisions on fund accountability and adequate audit coverage. There should be provisions on courses of actions and sanctions to be imposed whenever there is a mismanagement of funds at the levels of the implementing partners and executing agencies in order to emphasize their accountability for these funds. To ensure a more adequate audit coverage at the project execution level, provisions on the sub-agreement should not only include audit by the internal and external auditors of the UN, but by audit institutions of the host Government or other audit organizations, as determined by UNHCR. For audits carried out by the audit institution of the host Government of the implementing partner, UNHCR field officers and their auditors should be furnished with copies of the audit reports.

Cost effectiveness in the utilization of project resources

101. In addition to the timely and effective delivery of assistance and basic needs to refugees is the economic and efficient utilization of these resources. Field visits conducted revealed instances of inadequate value-for-money considerations in project implementation. For example:

(a) Refund of unspent balances

In Pakistan, unspent balances of $513,400 for 1991 projects were refunded only after several months. In addition, unspent balances of

$105,548 for 1989 projects were deducted from installments made for 1992 projects. These delays were due to the long and tedious internal financial and administrative arrangements of the implementing agencies. The Board sees this as a toleration by UNHCR of the failure of implementing partners to provide proper accounting of and timely refund of unused funds entrusted to them.

(b) Excessive costs for vehicles

An implementing partner in Honduras used a project vehicle in operations not related to UNHCR project and not covered by a Letter of Instructions. Also, the Office of the Charge de Mission maintained substantial number of surplus items in a rented house in Tegucigalpa including six vehicles which were kept idle in a rented private garage. Although there is no fraud, there is wastage due to deterioration of the surplus items and to rental expenses. Costs of repairs and maintenance of newly acquired vehicles at the branch office in Cote D'Ivoire and sub-office in Mexico has become uneconomical since these were as high as 20 to 49 per cent of the original cost of the vehicles after one year use.

(c) Over procurement of medicines and medical supplies

Large quantities of medicines and medical supplies were purchased and kept in stock in Honduras and in Pakistan resulting in the expiration of these medicines. And records were not adequately updated.

102. UNHCR field offices should institute measures that would lead to more economic and efficient utilization of resources by the implementing partners and executing organizations through proper monitoring and more frequent visits to refugee camps and other areas of operations.

Preparation and submission of project monitoring reports

103. Preparation and submission of project monitoring reports (PMRs) is also crucial for UNHCR because these reports contain information needed for effective decision making, such as the status of implementation of projects, the utilization of funds and other resources, and the identification of projects due for closure. Reviews conducted indicated that timely submission of project monitoring reports both at headquarters and in field offices needs immediate attention.

(a) Reports on terminated projects

Some 4,000 completed projects and sub-projects relating to the period 1985 to 1991 have not been formally closed as at the end of December 1992 either because the required project reports have not been submitted by the implementing partners after the winding up period or the reports had been submitted but have not been processed at headquarters. The Administration explained that the delay in processing these reports at headquarters was due to the increasing pressure of work on staff and the tremendous

expansion of UNHCR activities. The submission of final narrative reports which includes the audit certificate on projects implemented by executing organizations, are conditions necessary in the appropriate evaluation of project execution as well as basis for making available funds for other projects. The Administration took steps to create a task force to analyze and process reports received from field offices and implementing partners and follow-up those which were outstanding. Further, in an effort to ensure continuous follow-up, a database showing all projects outstanding for closure has recently been computerized and made available on line to all responsible staff.

(b) Reports on 1992 projects

The Board reviewed five 1992 projects with total obligated funding of $236.7 millions. As at 31 December 1992, final monitoring reports had only been received for two sub-projects in Yugoslavia with a total value of $105,000. The Administration stated that the introduction of the Implementing Partner Recording (IPR) module of the Financial Management Information System (FMIS), consolidated financial monitoring report of field offices and implementing partners could now be generated on timely basis. The Board welcomes this development. However, the effectiveness of this system will depend on adequate enforcement by UNHCR of the timely submission of reports by field offices, implementing partners and agencies executing UNHCR projects.

(c) Preparation and submission of reports by field offices

Observations made at headquarters were confirmed during the field visits in Sudan, Cote D'Ivoire, Costa Rica, Mexico, Iran, and Nicaragua. It appeared during the field visits that the most common causes for late or non-submission of PMRs were the inability and lack of motivation of implementing partners to prepare and submit reports required of them and shortage of personnel.

104. To address these concerns, the Board recommended the following:

(i) the recently established task force should continue to analyze and process the reports for terminated projects;

(ii) quarterly reports on the status of report submission should be generated for general circulation; and

(iii) reporting requirements as set out in the project agreements and sub-agreements as part of the accountability process to UNHCR as the funding organization should be enforced.

Write-off of losses of cash and property

105. In accordance with UNHCR Financial Rule 10.6, the Board was informed that cash and receivables amounting to $155 and $170, respectively were written off during the year 1992.

106. Non-expendable property written off amounting to $571,761 represented items lost through the following circumstances as reported to the Property Survey Board by various field offices:

a.	Civil disturbances	$ 312,739
b.	Armed robbery	120,498
c.	Ordinary theft	46,622
d.	Fire	3,766
e.	Weak internal controls	
	Lost by staff members	6,658
	Missing	8,744
	Theft	$ 72,734
		$ 571,761

The Advisory Committee on Administrative and Budgetary Questions requested the Board to indicate losses incurred through internal control weaknesses (paragraph 157, A/47/500). The Board noted that of the loss through ordinary theft of $46,622, only $16,494 may be recovered from the insurance company indicating deficiencies in insurance coverage. Of the $88,136 lost through weak internal control, $17,117 may be recovered from the insurance company concerned; $24,403 are to be refunded by staff members; and $46,616 can not be recovered.

Ex-gratia payments

107. Two ex-gratia payments totalling $18,768 were made in 1992 to the widow of a deceased consultant and to the family of a staff member who died in a car accident while on an official mission. The Board of Auditors was provided with details of these payments and ascertained that these were in accordance with UNHCR Financial Rule 10.5.

Cases of fraud and presumptive fraud

108. The Board was informed that during the year a case of fraud has occurred in procurement costing the Organization $9,620. This was perpetrated by a locally recruited senior programme assistant in Zimbabwe, who later resigned and disappeared. No refunds have been recovered. Since then, the branch office has strengthened its internal controls.

Acknowledgement

109. The Board of Auditors wishes to express its appreciation for the co-operation and assistance extended to the auditors by the High Commissioner, her officers and their staff.

Osei Tutu PREMPEH
Auditor-General of Ghana

Pascasio S. BANARIA
Chairman, Commission on Audit
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John BOURN, KCB
Controller and Auditor General
of the United Kingdom

28 June 1993

ANNEX

Follow-up on actions taken to implement the recommendations of the Board of Auditors in its report for the period ended 31 December 1991

1. As requested by the General Assembly in paragraph 15 of its resolution A/47/211 of 23 December 1992, the Board reviewed the steps taken by the Administration to implement previous audit recommendations and results thereof are discussed hereunder. Those recommendations, which have not as yet been implemented or have been partially implemented are presented in the main report.

I. RECOMMENDATION 7 (a)

2. In addition to measures to recover funds misappropriated in a field office, UNHCR should vigorously monitor compliance with its procurement and disbursement procedures, including adequate separation of financial responsibilities.

A. Measures taken by the Administration

3. Separation payments of $84,157 due the staff members were withheld pending resolution of the case of misappropriation in the field office. Advice of the UN Legal Counsel with regard to legal action that may be taken against the staff members is being sought and legal options for the recovery of funds owing to UNHCR are being explored.

4. Additional staff has been provided to strengthen the office administration and adequate control procedures have been established to prevent recurrence of misappropriation of funds.

B. Comments of the Board

5. The Board did not have an opportunity to visit the field office in Djibouti. It intends to follow up on this in the succeeding audit. Nevertheless, relevant correspondence available at headquarters were reviewed and found satisfactory.

II. RECOMMENDATION 7 (b)

6. To avoid over stretching UNHCR capacities, projects established to deal with emergency situations in 1991 should be effectively monitored to confirm their continuing applicability so that timely action can be taken to terminate those whose objectives have been realized.

A. Measures taken by the Administration

7. The Administration indicated that emergency and special operations are subject to the monitoring and reporting requirements of the programme management system in the UNHCR Manual. These requirements ensure that timely action can be taken to terminate those operations whose objectives have been achieved or the continuance of operations whose relevance is still apparent. UNHCR also conducts an annual country reporting exercise, as part of its programming cycle, to determine country objectives in relation to all aspects of UNHCR operations in the current and future requirements in conjunction with country/area progress reports. Various reports are also regularly issued at headquarters to assist staff in monitoring the status of operating and closed operations.

B. Comments of the Board

8. As discussed in paragraphs 33 to 37 of this report, many unliquidated obligations for terminated projects were cancelled during the year. However, these terminated projects have not been formally closed pending submission of the required final narrative project reports. The delayed submission of these reports remain as an audit concern and discussed in paragraphs 103 and 104.

III. RECOMMENDATION 7 (c)

9. UNHCR should continue its efforts to enter into tripartite sub-agreements with the government department of a host country and the implementing partners so that project funds can be released directly to the partners who are actually executing the projects in order to speed up project delivery.

A. Measures taken by the Administration

10. The Branch Office in Thailand was advised by headquarters to take up issue on the adoption of a standard tripartite agreement with the Ministry

of Interior (MOI) under its 1993 programme. The Directors of the Regional Bureau for Asia and the Internal Audit, in separate meetings with MOI officials held last January 1993, discussed the current system of bipartite agreements encompassing the non-governmental organizations (NGOs), expressing their preference for a tripartite agreement with the NGOs, MOI and UNHCR.

B. Comments of the Board

11. This recommendation has not only been satisfactorily implemented in 1992 in Thailand but also in other field offices visited during this year's audit. These are again presented in paragraphs 95 to 100.

IV. RECOMMENDATION 7 (d)

12. The Board reiterates its previous recommendation that the implications of a policy on the payment of reasonable reparations to UNHCR for property lost in crisis situations involving civil disorder should be re-examined.

A. Measures taken by the Administration

13. The Administration stated that the recommendation will be difficult to enforce by UNHCR alone. If a UN system-wide approach could be agreed upon, there would be a better prospect of success to obtain compensation for losses incurred during civil disturbances.

B. Comments of the Board

14. No action was taken in this regard.

V. RECOMMENDATION 7 (e)

15. Effective action should be taken to enforce strict compliance with UNHCR procurement procedures in a regional office and to improve monitoring and reporting of project activities.

A. Measures taken by the Administration

16. The regional office in Ethiopia had been reminded to comply with procedures and regulations governing international or local procurement. The regional office has improved the monitoring and reporting of project activities and has subsequently, on all occasions, requested headquarters' approval before proceeding with local procurement or undertake international procurement when price comparison revealed more advantageous prices.

B. Comments of the Board

17. An audit was conducted of the 1992 accounts and operations of the regional liaison office in Addis Ababa, Ethiopia and its Sub-Office in Jijiga by the United Nations Internal Audit Division. Results of the audit disclosed that sufficient internal controls were found in place and were adequately administered.

18. The Board is pleased with the improvements made in Ethiopia. However, the above recommendation should still be vigorously pursued by the Administration in other field offices where the same deficiencies in procurement procedures were noted as discussed in paragraphs 55 to 58.

VI. RECOMMENDATION 7 (f)

19. Inventory status should be regularly updated to ensure the full disclosure of inventory holdings at the end of the financial period.

A. Measures taken by the Administration

20. The inventory of non-expendable property maintained by headquarters has been updated as of 31 December 1992 for all PT. 107s, a form accomplished by the field office for acquisition of UNHCR property. A temporary staff was hired during the year to update the inventory of non-expendable property.

B. Comments of the Board

21. The Board acknowledges the efforts taken to update the inventory of non-expendable property covered by PT.107s for those purchased by headquarters. The Board noted that there were purchases made by field offices which were already received but the corresponding PT.107 forms have not been submitted to headquarters.

I. RECOMMENDATION 7 (g)

22. The processing of delivery reports should be expedited to ensure that financial statements reflect the true status of outstanding in kind pledges. The reporting to donors should also be expedited to facilitate their reimbursement to UNHCR of outstanding pledges.

A. Measures taken by the Administration

23. Fund Raising Service within UNHCR is making every effort to have the field offices confirm receipt of donations in kind as soon as possible and to promptly prepare reports to donors for timely release of final payments against pledges. UNHCR has also formally approached donors who have not paid prior years' pledges in the hope that this would provoke payment or yield explanations that would permit cancellation.

B. Comments of the Board

24. The Board noted that the recording of some contributions in kind were not effected in the year when these were actually received in field offices as discussed in paragraphs 28 to 32. However, the difference noted during this year's audit is not as material compared to last year's figures. With regard to the reporting to donors, the Board noted that while there was effort made to improve the situation, not much was achieved this year.

VIII. RECOMMENDATION 7 (h)

25. Voluntary contributions should be accepted and utilized in a manner consistent with the Financial Regulations of the UN and where appropriate, with the Financial Rules for voluntary funds.

A. Measures taken by the Administration

26. The Administration stated that the 1992 pledge letters from the United States no longer contain a clause for an independent audit. All subsequent pledge letters and agreements are now checked very carefully to ensure that the terms and conditions contained in the agreement conform with the UN Financial Regulations and the Financial Rules for voluntary funds.

B. Comments of the Board

27. This recommendation has been implemented.

IX. RECOMMENDATION 7 (i)

28. The control of food items in field offices should be improved through effective storage and adequate monitoring of receipts and issues.

A. Measures taken by the Administration

29. The Administration stated that a proper in-out warehouse registry of all commodities is now in place at the field office at Nigeria.

B. Comments of the Board

30. Nigeria was not one of the field offices visited by the Board this year and did not have an opportunity to assess the adequacy of inventory control thereat. However, in field offices visited, inadequate inventory control exist. In the sub-offices in Zaire loose controls resulted in loss of several food items due to theft.

X. RECOMMENDATION 7 (j)

31. The disposal of UNHCR property through donations should follow existing procedures while inventory approved for disposal should be vigorously followed up to ensure their timely deletion from inventory.

A. Measures taken by the Administration

32. The Administration stated that field offices have been reminded to obtain prior approval from the Property Survey Board (PSB) at headquarters before they make donation of UNHCR property. The Administration also hopes to institute a follow-up system on decisions taken by the PSB to minimize the delays in the disposal of the non-expendable property.

B. Comments of the Board

33. The reminders sent by the Administration to field offices was reviewed. Nevertheless, some offices continue to disregard these directives as discussed in paragraphs 84 to 85.

XI. RECOMMENDATION 7 (k)

34. UNHCR's request to the Internal Audit Division (IAD) for the establishment of a UNHCR dedicated, Geneva-based IAD Unit should be implemented. To the extent possible, financial resources for IAD should be increased to enable it to expand and strengthen its audit coverage, commensurate with the increase in UNHCR's activities.

A. Measures taken by the Administration

35. The UNHCR Section of the Internal Audit Division in Geneva was strengthened in 1992 by increased its staff force to seven (7) auditors, six (6) in the professional level and one (1) in the general service level. In 1993, the Administration will make available two additional posts, one at the P-4 level and the other at the general service level.

B. Comments of the Board

36. For 1992, thirteen audit engagements were undertaken on UNHCR, of which five (5) were carried out by the UNHCR Section in Geneva and the rest were conducted by other IAD staff from New York and Nairobi. Given the budget of $1,071.9 million of UNHCR, the audit coverage appears inadequate.

37. The Administration explained that the low performance of IAD, UNHCR Section was attributed to limited staff resources and the assignment of its Chief to non-audit missions in Kuwait and Iraq for the last quarter of 1991 and first quarter of 1992 resulting in the redirection of audit priorities in 1992.

38. The Board recommends the development of an audit strategy for UNHCR, where for a given year, the UNHCR Section of IAD concentrates its audit in one specific audit area to ensure a wider coverage of as many field offices and to achieve tangible audit results. For 1993, the Board specifically recommended the strengthening of internal controls for cash resources at the field offices as discussed in paragraphs 66 to 79.